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PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES

(Deductions You Are Entitled
To Use for 1988)

AN INFORMATION PAPER

PREPARED FOR USE BY THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

JANUARY 1989

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This document has been printed for information purposes. It does not offer findings or recommendations by this committee.

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PREFACE

To help assure that older Americans claim every legitimate income tax deduction, exemption, and tax credit, the Senate Special Committee on Aging, in cooperation with the Internal Revenue Service, has prepared this information paper for tax year 1988. We hope this information helps you in filling out your tax forms.

Keeping up with new tax provisions and filling out tax forms can be a very complicated process. In providing this information paper, the Senate Special Committee on Aging hopes to be of assistance to you.

DAVID PRYOR,
Chairman.
JOHN HEINZ,
Ranking Minority Member.

IRS ASSISTANCE IS AVAILABLE TO HELP YOU

Tele-Tax: The Internal Revenue Service has a telephone service called Tele-Tax. This service provides recorded tax information tapes on about 140 topics covering such areas as filing requirements, dependents, itemized deductions, and tax credits. Tele-Tax is available 24 hours a day, 7 days a week, to taxpayers who use push-button telephones. Rotary (dial) service is available Monday through Friday during regular office hours. A listing of tapes and instructions on how to use Tele-Tax are near the end of the Form 1040 or Form 1040A and Form 1040EZ instructions.

Publications to assist you: The IRS prepares many free publications that will help answer your tax questions. In addition to the general Publication 17, "Your Federal Income Tax," publications are available on specific topics, such as:

"Your Rights as a Taxpayer" (Publication 1).

"Tax Information for Older Americans" (Publication 554).

"Highlights of 1988 Tax Changes" (Publication 553).

"Credit for the Elderly or the Disabled" (Publication 524).

"Tax Withholding and Estimated Tax" (Publication 505).

"Guide to Free Tax Services" (Publication 910).

"Social Security Benefits and Equivalent Railroad Retirement Benefits" (Publication 915).

Single copies of the above publications can be ordered by mail, using the order form in your tax package.

Other special IRS programs offering free assistance: Through the tax counseling for the elderly (TCE) program, IRS-trained volunteers assist individuals age 60

or older with their tax returns at neighborhood locations in many areas. In addition, certain volunteer income tax assistance (VITA) aides have been trained to help older Americans with their tax returns. (VITA assistance is also available to persons who cannot afford professional tax help as well as to military, handicapped, and non-English-speaking individuals.) Your local IRS office will be able to tell you where and when you can find TCE or VITA assistance in your area.

CONTENTS

	Page
Preface	III
IRS assistance is available to help you	V
Who must file a Federal tax return is generally determined by your income and your filing status	1
Form 1040EZ	2
Reminder for Social Security beneficiaries	3
Tax withholding and estimated tax payments	3
Tax table	5
Exemptions	5
Exemptions for dependents and multiple support agreements	5
Presidential election campaign fund	6
Standard deduction	7
Checklist of itemized deductions for Schedule A (Form 1040):	
Medical and dental expenses:	
Drugs and medicines	9
Examples of other deductible medical and dental expenses	9
Taxes	10
Interest:	
Bank and other general purpose credit cards	11
Points	11
Penalty for prepayment of a mortgage	11
Revolving charge accounts	11
Contributions	12
Casualty or theft losses	13
Miscellaneous deductions	13
Tax credits:	
Credit for child and dependent care expenses	15
Credit for the elderly or the disabled	15
Earned income credit	15
Sale of your main home	16
Savings incentives:	
Individual retirement arrangements (IRA's)	17
Keogh plans	17
1989 income tax items of interest to older Americans	17

WHO MUST FILE A FEDERAL TAX RETURN IS GENERALLY DETERMINED BY YOUR INCOME AND YOUR FILING STATUS

You must file a return for 1988, even though you owe no tax if:	*And your gross income was at least:*
1. You were single and were:	
Under age 65	$4,950
Age 65 or older	$5,700
2. You were married filing a joint return and were living with your spouse at the end of 1988 or on the date your spouse died and:	
Both were under age 65	$8,900
One was age 65 or older	$9,500
Both were age 65 or older	$10,100
3. You were married filing a separate return or married but not living with your spouse at the end of 1988 or on the date your spouse died	$1,950
4. You were single, divorced, or married with a dependent child and living apart from your spouse during the last 6 months of 1988 and were:	
Under age 65	$6,350
Age 65 or older	$7,100
5. You were a qualifying widow or widower with a dependent child and:	
Under age 65	$6,950
Age 65 or older	$7,550

6. You received *any* advance earned income credit (EIC) payments from your employer(s) during 1988.
7. You were self-employed and your net earnings from this work were at least $400, then you must file a return to pay self-employment tax. You are self-employed if you carry on a trade or business as a sole proprietor, a member of a partnership, or an independent contractor. This includes certain part-time work that you do at home or in addition to your regular job. This rule applies regardless of your age; whether or not you are receiving Social Security benefits; and even if you are otherwise not required to file a Federal tax return. If you work for a church or a qualified church-controlled organization that elected exemption from Social Security taxes, you will have to pay self-employment tax if you are paid $100 or more in a year by the church or organization. For wages paid after 1988, there is an exemption from Social Security tax for employees and employers who are members of certain religious faiths.
8. You can be claimed as a dependent on another taxpayer's return, you may have to file. (See instructions for the tax forms.)

You should file a return for 1988, even though you owe no tax if:

1. Income tax was withheld from your pay, so that you can get a refund of the tax withheld, even if you are not required to file a return.
2. You qualify for the earned income credit.

FORM 1040EZ

There is a simplified tax return form, called Form 1040EZ. You may only use this form if:

(1) Your filing status is single;

(2) You are not age 65 or older or blind;

(3) You claim no dependents;

(4) Your taxable income is less than $50,000;

(5) Your income is all from wages, salaries, tips, taxable scholarships and fellowships, and taxable interest of $400 or less;

(6) You do not have any adjustments to income;
(7) You do not itemize your deductions;
(8) You have no other taxes; and
(9) You do not claim any tax credits.

You should use this form if you meet these qualifications, because it is easier to fill out than the other forms. If you cannot use Form 1040EZ, you should use either Form 1040 or Form 1040A.

Note: Beginning in 1988, you may be able to use Form 1040A if your filing status is qualifying widow(er) with dependent child.

REMINDER FOR SOCIAL SECURITY BENEFICIARIES

Up to one-half of the Social Security benefits received by *certain* beneficiaries may be subject to Federal income tax. Chances are good that you won't have to pay any tax on your benefits. The IRS estimates that only a small percentage of the beneficiaries will have to do so. Couples who file jointly—where one spouse is retired and the other works—and married persons filing a separate return are the most likely to owe additional taxes on benefits.

You should receive a form from the Social Security Administration marked FORM SSA-1099—SOCIAL SECURITY BENEFIT STATEMENT if you received benefits in 1988. These forms will note how much of that amount was deducted by Social Security to cover Medicare premiums, any repayments of prior overpayments by SSA, etc. IRS has a worksheet for calculating the amount of benefits subject to tax in the FORM 1040 instruction booklet.

TAX WITHHOLDING AND ESTIMATED TAX PAYMENTS

Unless you choose not to have any withheld, Federal income tax will generally be withheld from the taxable part of your pension and annuity payments. This includes distributions from an individual retirement arrangement, from a life insurance company under an endowment, annuity, or life insurance contract, or from a pension, annuity, profit-sharing, or stock bonus plan, or any similar plan that defers the time you receive compensation. The amount withheld depends on whether

you receive payments spread out over more than 1 year ("periodic payments") or whether you receive all of the payments within 1 year ("nonperiodic payments").

Withholding from periodic payments of a pension or annuity is figured in the same way as withholding from salaries and wages. To tell the company that pays your pension or annuity how much you want withheld, fill out Form W–4P, or a similar form provided by the company, showing your marital status and the number of withholding allowances to which you are entitled. If you do not give the payer a Form W–4P, tax will be withheld as if you are married and are claiming three withholding allowances. You may also use this form to tell the payer you do not want any tax withheld. However, if you are a U.S. citizen whose residence address is in a foreign country, you may not choose to have no tax withheld.

Tax will be withheld at the rate of 10 percent on any nonperiodic payments you receive, unless they are part of a "qualified total distribution." A qualified total distribution is payment within 1 year of your entire interest in a pension, profit-sharing, stock bonus, or qualified annuity plan. The amount withheld from a qualified total distribution is specified in tables; the payer can tell you the amount that will be withheld.

Because the withholding rates for nonperiodic payments do not depend on withholding allowances or whether you are married or single, Form W–4P is not used. The withholding rates are fixed; you cannot change the way tax is withheld. However, you can use Form W–4P to choose to have no tax withheld from nonperiodic payments or to revoke a choice to have no tax withheld. You can also use Form W–4P to specify that an additional amount be withheld.

Remember, if no tax or not enough tax is withheld from your income, you may need to pay estimated tax. Your estimated tax generally is the total of your expected income tax, self-employment tax, and other taxes reported on Form 1040, less your expected withholding and credits. Form 1040–ES provides a worksheet for making this computation.

If your estimated tax for 1989 is $500 or more and you expect your withholding and credits to be less than the lesser of: (1) 90 percent of the tax to be shown on your 1989 return, or (2) 100 percent of the tax shown on

your 1988 tax return (assuming the return covered all 12 months), you generally must pay an estimated tax and use Form 1040-ES. Installment payments are due April 17, June 15, September 15, and January 16, 1990.

For more information, see Publication 505, "Tax Withholding and Estimated Tax."

TAX TABLE

You must use the Tax Table to find your tax if your taxable income (line 7, Form 1040EZ; line 19, Form 1040A; or line 37, Form 1040) is less than $50,000. You *must* use this table *unless* your taxable income is $50,000 or more. In that case, you must use the Tax Rate Schedules. The Tax Table is designed to be used by individuals whether or not they itemize their deductions.

EXEMPTIONS

You are allowed a $1,950 deduction for each exemption shown on your tax return (line 6e, Form 1040A; line 6, Form 1040EZ; or line 6e, Form 1040). However, you may not take an additional exemption if you are age 65 or older or blind. Instead, you are allowed a higher standard deduction amount if you qualify. See the discussion on standard deduction.

If you can be claimed as a dependent on the tax return of another taxpayer, you are not allowed to claim your own exemption on your own tax return.

EXEMPTIONS FOR DEPENDENTS AND MULTIPLE SUPPORT AGREEMENTS

In general, a person may be claimed as a dependent of another taxpayer, provided five tests are met: (1) Support, (2) gross income, (3) member of household or relationship, (4) citizenship, and (5) joint return.

If the five dependency tests are met and you are entitled to claim a person as a dependent, that person may not claim his or her own exemption if he or she is required to file a tax return.

If you claim an exemption for a person who was age 5 or older on December 31, 1988, you must enter his or her Social Security number on your tax return. If your dependent does not have a Social Security number, you may obtain one by filing Form SS-5 with your local

Social Security Administration office. If your dependent does not have a number by the time you are ready to file your return, apply for one and enter "Applied for" in the space for your dependent's Social Security number on your return.

The support test is met if the person claiming the exemption contributed more than one-half of the individual's total support during the calendar year. But in some cases, two or more individuals provide support for an individual, and no one individual has contributed more than half the person's support. However, it still may be possible for one of the individuals to claim the $1,950 exemption if all of the following requirements for multiple support are met:

(1) Two or more persons—any one of whom could claim the person as a dependent if it were not for the support test—together contribute more than half of the dependent's support.

(2) Any one of those who individually contributes more than 10 percent of the mutual dependent's support, but only one of them may claim exemption for the dependent.

(3) Each of the others who individually contributes more than 10 percent must sign a written statement that he or she will not claim the dependency exemption for that year. The statement must be filed with the income tax return of the person who claims the dependency exemption. Form 2120, "Multiple Support Declaration," is used for this purpose.

Note. You may include with your medical expenses those medical expenses you paid for a person for whom you meet the support test under a multiple support agreement, even if you may not claim the person as a dependent because he or she had gross income of $1,950 or more.

PRESIDENTIAL ELECTION CAMPAIGN FUND

You may voluntarily choose to have $1 of your taxes ($2 on a joint return) paid into this fund to help pay for Presidential election costs. Making this choice will not change the amount of tax you pay or the amount of refund you will receive.

STANDARD DEDUCTION

The standard deduction reduces the amount of your income that is taxed. It also reduces the need for many taxpayers to itemize their deductions. The standard deduction, which depends on your filing status and whether you are age 65 or older or blind, is not built into the Tax Table or Tax Rate Schedules but is figured separately. Once you have figured your standard deduction amount, you should then decide which gives you a higher tax benefit—taking the standard deduction or itemizing your deductions on Schedule A of Form 1040.

If you are age 65 or older or blind in 1988, you are entitled to a standard deduction amount which is more than the amount for taxpayers under 65 and not blind. This benefit replaces the additional exemption allowed for age and blindness in years before 1987. Unless you can be claimed as a dependent or meet one of the special rules, you may figure your standard deduction amount using the table that follows.

You are considered 65 for the 1988 tax year if your 65th birthday was on or before January 1, 1989. You are considered blind for 1988 if you are blind on the last day of 1988. Your tax instruction booklet has more information on the requirements.

Special rules. Your standard deduction is zero if your spouse itemizes deductions on a separate return, you are a dual-status or nonresident alien, or you have a short tax year. If you can be claimed as a dependent on another person's tax return, your standard deduction may be limited. If you meet one of these special rules, you may not use the standard deduction table which follows. See your tax instruction booklet for more details on these special rules.

1988 Standard Deduction Table

Caution. This table does not apply to taxpayers who can be claimed as dependents.

STEP 1. Check the number of boxes that apply to you.

You	☐ 65 or older	☐ Blind
Your spouse	☐ 65 or older	☐ Blind

Total number of boxes you checked..... ☐

STEP 2. Find your standard deduction.

If your filing status is:	and number of boxes you checked in Step 1 above is:	your standard deduction is:
Single	0	$3,000
	1	3,750
	2	4,500
Married filing jointly	0	$5,000
	1	5,600
	2	6,200
	3	6,800
	4	7,400
Married filing separately [1]	0	$2,500
	1	3,100
	2	3,700
	3	4,300
	4	4,900
Head of household	0	$4,400
	1	5,150
	2	5,900
Qualifying widow(er)	0	$5,000
	1	5,600
	2	6,200

[1] If your spouse itemizes deductions on a separate return, your standard deduction is zero.

CHECKLIST OF ITEMIZED DEDUCTIONS FOR SCHEDULE A (FORM 1040)

MEDICAL AND DENTAL EXPENSES

Medical and dental expenses are payments you make for the diagnosis, treatment, or prevention of disease. They also include payments for treatment affecting any part or function of the body. Expenses for transportation to get medical care are included in medical expenses. Payments for insurance that provides medical care for you, your spouse, and dependents are included in medical expenses. Unreimbursed expenses are deductible to the extent they are more than 7.5 percent of your adjusted gross income (line 31, Form 1040). Expenses may be deducted only in the year you paid them. If you charge medical expenses on your credit card, deduct the expenses in the year the charge is made regardless of when the bill is paid.

Drugs and medicines.—Amounts paid for medicines and drugs that required a prescription, and for insulin are deductible. These items are included in medical expenses, subject to the 7.5-percent rule.

Expenses for the following are included in your medical and dental expenses:

—Doctors, surgeons, dentists, eye doctors, gynecologists, chiropractors, osteopaths, podiatrists, chiropodists, psychiatrists, psychologists, physical therapists, acupuncturists, Christian Science practitioners, and psychoanalysts.

—Medical examinations, X-rays and laboratory services, surgery, and dental fees.

—Nursing help. However, if you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.

—Hospital care (including meals and lodging), clinic costs, lab fees.

—Medical treatment (including meals and lodging) at a center for drug addicts or alcoholics.

—Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, artificial limbs, crutches, wheelchairs, guide dogs and the cost of maintaining these aids.

—Oxygen equipment and oxygen to relieve problems in breathing caused by a medical condition.

—Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received medical care, or you may claim 9 cents a mile. Add parking fees and tolls to the amount you claim under either method.
—Cosmetic surgery.
—Cost and repair of special telephone equipment for the deaf.
—Extra cost of a specially equipped television set and the cost of an adapter for a regular set that provides subtitles for a deaf person.
—Part of the cost of braille books and magazines that is more than the price for regular books and magazines.
—Capital expenditures for medical purposes, such as air-conditioning or elevators. If these expenses are for permanent improvements that increase the value of the property, you may include them as medical expenses only to the extent that they cost more than the increase in the value of the property.
—Cost of a nursing home (including meals and lodging) if the principal reason for being in the nursing home is to get medical care.
—Medical care included in the "life-care fee" or "founders fee" of a retirement home that is paid monthly or as a lump sum under an agreement with the home. The deductible part of the fee payment is the amount set apart for medical care.
—Cost of special equipment, such as a motorized wheelchair or autoette, special hand controls and other special equipment installed in a car specifically for the use of a physically handicapped person.

You may only deduct those medical expenses that are more than 7.5 percent of your adjusted gross income.

For more information, see IRS Publication 502, "Medical and Dental Expenses."

TAXES

- Real estate
- State, local, or foreign income
- Personal property

INTEREST

- Personal loan
- Home mortgage
- Auto loan
- Loans on life insurance
- Installment purchases

For 1988, you may deduct only 40 percent of the interest you paid on loans used for personal purposes, other than qualified home mortgage interest. The rules for deducting home mortgage interest have changed for 1988. In most cases, you will be able to deduct all of your home mortgage interest, even if your deduction was limited in 1987. Whether your home mortgage interest is fully deductible depends on the date you took out the mortgage, the amount of the mortgage, and your use of its proceeds. For more information, see Publication 936, "Limits on Home Mortgage Interest Deduction."

Bank and other general purpose credit cards.—If the credit is used for personal purposes, you may deduct 40 percent of the finance charge added to your monthly statement if no part of the charge was for investigation fees, membership fees, loan fees, service charges, or similar charges.

Points.—When buying a home, "points" may be interest paid in advance or charges for specific services. If the points are charges for specific services they are not deductible. You may deduct the amount you pay as points (provided they are prepaid interest), in the year of payment if the loan is used to buy or improve your main home and is secured by that home. In addition, the payment of points must be an established business practice in the area where the loan was made, the points must not exceed the number of points generally charged in your area, and the points are paid with funds other than those obtained from your lender.

If the home you purchase is not your main home, you may not deduct the full amount of points in the year paid. Instead, the prepaid interest paid as points must be spread over the life of the mortgage, and is deductible over that period.

Points are not deductible if they represent charges for services rendered by the lending institution (e.g., VA or FHA points are not deductible as interest if paid for specific services). Also, points are not deductible if paid by the seller but are selling expenses that reduce the amount realized.

Penalty for prepayment of a mortgage.—This is generally deductible as home mortgage interest if it qualifies. Otherwise, you may deduct it as personal interest.

Revolving charge accounts.—If the account is used for personal purposes, 40 percent of the finance charges may be deducted if they are separately stated on your bill.

CONTRIBUTIONS

In general, contributions to qualified organizations, such as those organized and operated for religious, charitable, educational, scientific, or literary purposes may be deducted up to 50 percent of your adjusted gross income (line 31, Form 1040). Contributions "for the use of" any charitable organization or contributions to veterans organizations, fraternal societies, or nonprofit cemetery companies are limited to 30 percent of adjusted gross income (line 31, Form 1040).

If your total contributions for the year are 20 percent or less of your adjusted gross income (line 32, Form 1040), they are fully deductible (provided they otherwise qualify) and it is not necessary to figure whether the limits apply.

To deduct your contributions, you must make them in cash or other property before the close of your tax year. Other property (clothing, books, furniture, etc.) is deducted at the fair market value. You may deduct contributions you charge to your credit card in the year the charge is made.

Examples of other charitable contributions include:

—The cost and upkeep of uniforms that you must wear while performing donated services for a charitable organization.

—Out-of-pocket expenses you pay in giving services to a charitable organization. (Do not deduct the value of your time or services.)

—Payment of more than fair market value to an organization for goods, merchandise, services, banquets, shows, sporting events, etc.

—You may also deduct unreimbursed out-of-pocket expenses directly related to services you give to a charitable organization, such as gas and oil for your car. If you do not want to deduct actual expenses, you may use a standard rate of 12 cents a mile. In either case you may deduct parking fees and tolls.

Charitable contributions may only be claimed as an itemized deduction on Schedule A (Form 1040). You must keep records to prove your cash and noncash contributions. If your total noncash contributions are over $500, you must attach Form 8283, "Noncash Charitable Contributions," to your return.

For more information, see IRS Publication 526, "Charitable Contributions."

CASUALTY OR THEFT LOSSES

You may deduct casualty losses, such as those that result from a tornado, flood, storm, fire, or auto accident (provided it was not caused by a willful act or willful negligence), or theft losses. The amount of your casualty loss deduction is generally the lesser of (1) the decrease in fair market value of the property as a result of the casualty or theft, or (2) your adjusted basis in the property before the casualty or theft. This amount must be reduced by any insurance or other reimbursement you receive.

Your nonbusiness casualty or theft losses are deductible only to the extent that your total losses during the year exceed 10 percent of your adjusted gross income after reducing each separate casualty or theft by $100. You must use Form 4684 to figure your casualty or theft loss. Report your casualty or theft loss on Schedule A (Form 1040).

You may not deduct a casualty or theft loss that is covered by insurance unless you filed a timely insurance claim for reimbursement. However, even if you did not file an insurance claim, you may deduct the part of the loss not covered by insurance.

For more information, see IRS Publication 547, "Nonbusiness Disasters, Casualties, and Thefts."

MISCELLANEOUS DEDUCTIONS

Certain unreimbursed employee expenses, expenses of producing income, and other qualifying expenses are deducted as miscellaneous itemized deductions on Schedule A (Form 1040). Most miscellaneous itemized deductions are subject to a 2 percent limit. The amount deductible is limited to the total of these miscellaneous deductions that is more than 2 percent of adjusted gross income. The 2 percent limit is applied after all other de-

duction limits are considered. Some of the expenses subject to the 2 percent limit are as follows:

—Professional society dues.
—Employment-related educational expenses.
—Expenses of looking for a new job.
—Professional books, magazines, journals, and periodicals.
—Work clothes and uniforms.
—Union dues and fees.
—80 percent of unreimbursed business-related meal and entertainment expenses.
—Certain other unreimbursed employee business expenses.
—Safe deposit rental.
—Tax preparation fees.
—Certain investment expenses.

Certain miscellaneous expenses are not subject to the 2 percent limit. These expenses include:

—Federal estate tax on income in respect of a decedent.
—Certain deductions when a taxpayer repays amounts held under a claim of right.
—Amortizable bond premiums on bonds acquired before October 23, 1986.
—Gambling losses to the extent of gambling winnings.
—Unrecovered investment in a pension when the retiree dies before the entire investment is returned.
—Impairment-related work expenses of a handicapped individual that are for deductible attendant care services at the individual's place of work and other expenses in connection with the place of work that are necessary for the individual to be able to work.

For more information, see Publication 529, "Miscellaneous Deductions."

TAX CREDITS

Tax credits are used to reduce the amount of tax you owe. All credits must be taken on Form 1040, with the exception of the Credit for Child and Dependent Care Expenses and the Earned Income Credit which may be taken on Form 1040A. No credits may be taken on Form 1040EZ.

The most common credits are:

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

A portion of certain payments made for child and dependent care may be claimed as a credit against tax.

If you maintained a household that included your dependent under age 15 *or your disabled dependent, or your disabled spouse,* you may be allowed a tax credit for employment-related child and dependent care expenses. These expenses must have been paid during the tax year in order to enable you to work (and your spouse if you were married) or to look for work. You must have income from work during the year.

The amount of the credit is 30 percent of your qualifying expenses if your adjusted gross income (line 31 of Form 1040 or line 13 of Form 1040A) is $10,000 or less. The 30-percent rate is reduced by 1 percent for each additional $2,000 (or part of $2,000) of adjusted gross income above $10,000 until the percentage is reduced to 20 percent for adjusted gross income above $28,000.

The maximum amount of child and dependent care expenses that may be used to compute the credit is $2,400 for one qualifying person and $4,800 for two or more qualifying persons.

See the Form 1040A instructions or, if you file Form 1040, see Form 2441 for more information, including a special rule for divorced or separated taxpayers.

CREDIT FOR THE ELDERLY OR THE DISABLED

You may be able to claim this credit and reduce taxes if you are: (1) Age 65 or over, or (2) under age 65 and retired with a permanent and total disability for which you receive taxable disability benefits.

For more information, see the instructions for Schedule R (Form 1040).

EARNED INCOME CREDIT

If you have a child who shares your main home in the United States for more than half the year (for the entire year if the child is a foster child or if your filing status is qualifying widow or widower with dependent child), you may be entitled to a special payment or credit of up to $874. This is called the earned income credit. It may come as a refund check or be applied against any taxes you owe. Generally, if your earned

income and your adjusted gross income were each less than $18,576 in 1988, you may be able to claim the credit.

Earned income means wages, salaries, tips, strike benefits, other employee compensation, certain disability pensions, and net earnings from self-employment. Your filing status must be married filing jointly, or qualifying widow(er) or head of household. However, certain married persons living apart with a dependent child who qualify for head-of-household status may also be eligible to claim the credit.

For more information, see IRS Publication 596, "Earned Income Credit."

SALE OF YOUR MAIN HOME

You may exclude or defer from your gross income some or all of your gain from the sale or exchange of your main home, if you meet certain requirements at the time of the sale or exchange.

If you were age 55 or older on the date of sale or exchange you may elect to exclude from gross income up to $125,000 of gain provided you owned and lived in your main home for at least 3 years of the 5-year period ending on the date of sale or exchange (unless you become incapable of self care), and you or your spouse (depending on your marital status on the date of the sale) have never excluded gain on the sale or exchange of a home after July 26, 1978.

Also, if you meet certain requirements, you may defer from gross income part or all of the gain from the sale or exchange of your main home if, within 24 months before or 24 months after the sale or exchange, you buy or build and live in another main home.

Form 2119, "Sale of Your Home," is used to report the sale of your main home whether or not you bought another one. Taxable gains from the sale of your main home are then reported on Schedule D. Losses from such a sale are not deductible.

See Publication 523, "Tax Information on Selling Your Home." Also see Publication 553, "Highlights of 1988 Tax Changes."

SAVINGS INCENTIVES

Individual retirement arrangements.—An individual retirement arrangement (IRA) is a personal savings plan that lets you set aside money for your retirement. You may be able to deduct contributions you make to an IRA in whole, or in part, depending on your circumstances. Earnings on your IRA are not taxed until they are distributed to you. You may deduct the amount you actually contributed up to the lesser of your compensation that you must include in income, or $2,000 if either you (or your spouse) were not covered by an employer's pension plan. If you (or your spouse) were covered at any time during the year by an employer's retirement plan, your deduction may be further limited. Also, you may be able to make nondeductible contributions, which have a tax-free basis. You may also be eligible to make contributions to an IRA for your nonworking spouse. See Publication 590, "Individual Retirement Arrangements (IRA's)," for more information.

Keogh plans.—You must have earnings from self-employment to claim a deduction for payments to a Keogh (H.R. 10) plan. For information on Keogh plans, see Publication 560, "Self-Employed Retirement Plans."

1989 INCOME TAX ITEMS OF INTEREST TO OLDER AMERICANS

The Tax Reform Act of 1986 and recent legislation made many changes to the tax law which affect the 1989 tax year. Some of the tax changes are as follows:

1. *Exemptions.*—The personal exemption increases to $2,000 for 1989. However, beginning in tax year 1989, you may not claim an exemption for your child who is a full-time student and who has attained age 24 in 1989, unless the child's gross income for 1989 is less than $2,000.

2. *Standard deduction.*—For 1989, the standard deduction is $3,100 for single taxpayers; $2,600 for married filing separate taxpayers; $4,550 for head of household taxpayers; and $5,200 for qualifying widows and widowers, and married taxpayers.

If you are age 65 or older or blind in 1989, you are allowed an additional standard deduction amount depending on your filing status.

3. *Supplemental Medicare premium.*—Beginning in 1989, you may owe a supplemental Medicare premium if you are eligible for Medicare Part A (hospital insurance) benefits (without paying a monthly premium) and your income tax is $150 or more. You must add the premium to the tax shown on your 1989 income tax return. You can increase your income tax withholding or estimated tax payments for 1989 to cover this increase. For more information, see IRS Publication 934, "Supplemental Medicare Premium."

4. *Personal interest.*—For tax year 1989, only 20 percent of personal interest (such as interest on car loans or credit card balances) can be deducted as an itemized deduction.

5. *Child and dependent care.*—Beginning in 1989, the child being cared for must be under age 13 (unless handicapped). Also, you must include the name, address, and taxpayer identification number (unless it is an exempt organization) of the care provider on your tax return.

6. *Earned income credit.*—For 1989, the maximum earned income credit is increased to $910. The income limitation is increased to $19,340.

7. *Filing requirements.*—The amount of gross income you may receive before you are required to file a tax return has increased and is shown below. The chart below does not apply if you can be claimed as a dependent or you are self-employed.

Filing status	*Gross income*
Single:	
Under age 65	$5,100
Age 65 or older	$5,850
Married Filing Joint Return:	
Both spouses under age 65	$9,200
One spouse age 65 or older	$9,800
Both spouses age 65 or older	$10,400
Not living with spouse at the end of year (or on date spouse died)	$2,000
Married Filing Separate Return	$2,000
Head of Household:	
Under age 65	$6,550
Age 65 or older	$7,300

Filing status	*Gross income*
Qualifying Widow(er):	
Under age 65	$7,200
Age 65 or older	$7,800

For more information on changes for tax year 1989, see Publication 553, "Highlights of 1988 Tax Changes."

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